





State of Vermont
Public Service Board

MEMORANDUM

To: Deborah Markowitz, Secretary of State
Ann Cummings, Chair - Senate Finance
Ginny Lyons, Chair - Senate Natural Resources & Energy
Warren Kitzmiller, Chair - House Commerce
Tony Klein, Chair - House Natural Resources & Energy
Donald Milne, Clerk of the House
David Gibson, Secretary of the Senate
Emily Bergquist, Legislative Council
Steve Klein, Joint Fiscal Committee
Paul Donovan, Department of Libraries

From: James Volz, Chairman  

Re: 2007 Energy Efficiency Utility Program Revenues and Expenditures

Date: February 10, 2009

In accordance with 30 V.S.A. § 209, the Public Service Board ("Board") is providing the Legislature with a final report on the Energy Efficiency Utility Fund ("Fund") for activity through December 31, 2007, and information summarizing the results of the activities paid for by the Fund in 2007.¹ This report is for the 2007 program year because the Fund has not yet been audited and the program savings have not yet been verified for 2008. A report on the Fund's revenues and expenditures for 2008 will be presented to the Legislature in 2010.²

¹ The statute reads as follows: "The board will annually provide the legislature with a report detailing the revenues collected and the expenditures made for energy efficiency programs under this section." 30 V.S.A. § 209(d)(3).

² There will always be a lag in reporting this information to the Legislature because the program savings must be verified by the Department of Public Service ("Department") and an independent audit of the Fund must be completed. For example, the Department provided a final report on its verification activities for the 2007 program year to the Board in July 2008 and the Board made its determination regarding the achieved savings in August 2008. The Board received the independent audit of the Fund for 2007 in September 2008.

I am pleased to provide the legislature with this summary of EEU energy efficiency services delivered during 2007. These energy efficiency services were provided primarily by the Energy Efficiency Utility ("EEU"), which operates under the name "Efficiency Vermont";³ however, the City of Burlington Electric Department ("BED") provided many of these services in its service territory.⁴

As these reports show, both the EEU and BED are providing real benefits to the state's electricity consumers by reducing individual customers' electrical energy consumption and by reducing statewide electrical demand.

While the statute does not specifically require the Board to report on the activities of the EEU, I have included a report that summarizes the EEU's key accomplishments in 2007.⁵ As stated in this report, the investments made by the EEU in 2007 are projected to save Vermont a net present value of \$36,400,000 over the 10-year average lifetime of the investments (\$76,100,000 in net present value benefits minus \$39,700,000⁶ in 2007 investments). Business customers received approximately 45 percent of the benefits of the EEU's services in 2007, while residential customers received approximately 55 percent of the benefits. The kilowatt-hours saved by the EEU cost Vermont electric consumers approximately 2.7 cents per kilowatt-hour, which is approximately 75 percent less than utilities would have paid for a comparable electric supply in 2007. For more information about the EEU's accomplishments, see the attached report written by Efficiency Vermont entitled "Efficiency Vermont: 2007 Executive Summary" (Tab 1).

Also attached are an excerpt from BED's 2007 Energy Efficiency Annual Report and a page entitled "Burlington Electric Total Resource Benefits" (both of which were prepared by BED) that summarize the results of BED's energy efficiency activities that were paid for by the Fund (Tab 2).⁷ BED's calculations show that the investments in EEU services made by BED in 2007 are projected to save Vermont a net present value of \$5,901,000 over the 13-year average lifetime of the investments (\$8,457,000 in net present

³ Vermont Energy Investment Corporation ("VEIC"), a non-profit corporation, serves as the EEU under a contract with the Board. The Board selected VEIC in 2000, and again in 2005, through competitive solicitations.

⁴ When the Board first created the EEU, it authorized BED to deliver many of the same services in its own service territory that the EEU provided throughout the rest of the state (for simplicity's sake, this report refers to these services as "EEU services").

⁵ The kilowatt-hour savings and benefit figures included in the EEU's 2007 Annual Report have been verified by the Department as part of its evaluation activities.

⁶ Includes costs paid for by participants and third-parties.

⁷ BED's Annual Report provides information on all of BED's energy efficiency activities, including the EEU services that are paid for by the Fund, and other activities that are paid for by BED customers through other funding mechanisms. The benefit and expenditure figures included in this report are limited to those attributable to BED's EEU services.

value benefits minus \$2,556,000⁸ in 2007 investments).⁹ Business customers will receive approximately 69 percent of these savings, while residential customers will receive approximately 31 percent of the savings. The kilowatt-hours saved by BED's EEU services cost BED's ratepayers approximately 1.1 cents per kilowatt-hour.

Batchelder Associates, PC, is the company under contract to the Board as the Fiscal Agent¹⁰ for the Fund. The firm of G.W. Osterman & Co, PC, was engaged to perform an independent audit of the Fund's revenues and expenditures for 2007. More detailed information is provided as an attachment (Tab 3). A brief summary of the Fund follows.

Total revenues collected by the Fund during calendar year 2007 were \$23,058,594 (including revenues collected via the energy efficiency charge on electric customers' bills, Efficiency Vermont's participation in the Forward Capacity Market, and interest income accrued).¹¹ Total expenditures from the Fund during calendar year 2007 were \$21,181,311. It is expected that revenues and expenditures will be closely matched over the life of the three-year contract for the EEU services. Expenses paid by the Fund included:

- energy efficiency services provided by the EEU;
- EEU services provided by BED;
- non-regulated fuel efficiency services provided by the EEU and BED using revenues from the Forward Capacity Market; and
- administrative costs such as the EEU Contract Administrator,¹² the EEU Fiscal Agent, and EEU monitoring and evaluation activities undertaken by the Department of Public Service.

The documents attached to this memorandum show (1) the Fund is being appropriately managed; and (2) the energy savings achieved by the EEU and BED in the past year benefitted all Vermonters, whether or not they participated in the EEU's or BED's programs.

⁸ Includes costs paid for by participants.

⁹ BED's kilowatt-hour savings and benefit figures have not yet been independently verified. The Department plans to verify BED's 2007 savings and benefits claims in the summer of 2009.

¹⁰ The Fiscal Agent provides the accounting services necessary to administer the Fund. These services include receiving funds collected by Vermont electric distribution companies, disbursing funds to pay approved invoices, managing any cash balances in the Fund, and reporting on Fund financial activities.

¹¹ The revenue and expenditure figures in this paragraph are presented on an accrual basis. The Fund's cash balance as of December 31, 2007, was \$7,457,401.

¹² The EEU Contract Administrator assists the Board with the administration of the Board's contract with the EEU, including making recommendations on whether the EEU has achieved its contractually specified performance goals. The current EEU Contract Administrator is Michael Wickenden, who was selected via a competitive bidding process in 2002 and again in 2008.

Please keep in mind that, with this report, we are not reporting on all electric energy efficiency initiatives that are being implemented throughout the state; instead, this report is limited to funds received through the energy efficiency charge as authorized under 30 V.S.A. § 209(d)(3) and the statewide efficiency services delivered by the EEU and BED. Some electric utilities are implementing additional electric energy efficiency initiatives as part of distributed utility planning or as a service to their customers.

Additional information about the various oversight activities related to the EEU that the Board and other entities conduct is available on the Board's website at: <http://www.state.vt.us/psb/EEU/OversightActivities/EEUOversightActivities.htm>
This information includes, among other items:

- various reports produced by the EEU and by BED;
- financial reports such as the independent audit of the EEU Fund and the independent audit of VEIC (the contractor serving as the EEU);
- the most recent statutorily-required audit of the EEU program's cost-effectiveness;
- reports produced by the EEU Contract Administrator; and
- links to savings verification and evaluation reports produced by the Vermont Department of Public Service.

As always, please don't hesitate to contact me at the Public Service Board if you have any questions.

Encl.

cc: Department of Public Service
Energy Efficiency Utility
City of Burlington Electric Department
EEU Contract Administrator



Efficiency Vermont

2007 Annual Report
Executive Summary

October 15, 2008

255 South Champlain Street, Suite 7
Burlington, Vermont 05401-4894
1-888-921-5990

www.efficiencyvermont.com

In 2007, the eighth year of Efficiency Vermont's operations, energy savings completely offset the underlying electric load growth rate in Vermont. We achieved greater energy and demand savings with more cost-effectiveness than ever before. These extraordinary results were achieved in the same period in which Efficiency Vermont planned and launched new strategies in response to the increased budget and revised goals established by the Vermont Public Service Board.

A Year of Unprecedented Challenge

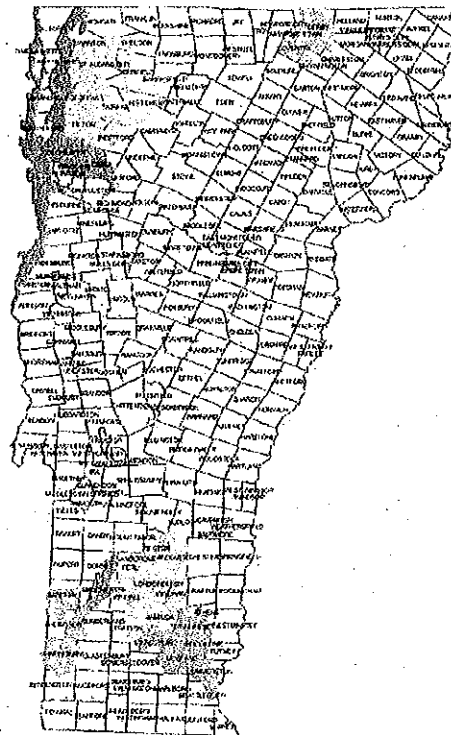
Public Service Board (PSB) orders in late 2006 and early 2007 dramatically altered the budget and performance goals for the 2006–2008 Efficiency Vermont contract. The original contract negotiated in late 2005 was revised in 2007, and now includes the following new budget and goals:

- The budget for the energy efficiency utility was increased by more than 40%
- The total megawatt-hours (MWh) savings goal was raised by 28% to 261,700 MWh
- Summer and winter peak demand savings goals were increased from 30.6 megawatts (MW) and 30.4 MW, respectively, to 37.5 MW and 41.4 MW, respectively.

The PSB also directed Efficiency Vermont to use the incremental budget increase for peak demand reductions in targeted geographic areas. This targeting initiative is intended to demonstrate the potential for using energy efficiency to defer the need for future transmission and distribution capacity investment by Vermont's electric utilities. The specific areas for this geographic targeting initiative were identified in January 2007 after a PSB workshop with the affected utilities (see map). The targeted areas are portions of the Southern Loop, Central Vermont Public Service (CVPS) territory in western Franklin County, Green Mountain Power (GMP) territory in Northern Chittenden County, and the Newport / Derby area.

Once the PSB defined the new goals and the GeoTargeted areas, Efficiency Vermont faced two challenges: (1) to identify how to achieve these higher goals; and (2) to launch the newly designed strategies in 2007 to meet the 2008 end-of-year goals.

Geographically Targeted Areas of Vermont



The Strategies

To meet these ramped-up goals, Efficiency Vermont mined its comprehensive database to identify and approach the Vermont ratepayers who have the biggest potential for achieving, influencing, or taking action to attain electrical energy and demand savings. Efficiency Vermont then aligned its existing activities with five major strategies targeted to these high-potential markets and customers, in addition to its historic major markets and the four GeoTargeted areas of the state.

By the end of 2007, all the strategies were fully under way and delivering results. The strategies and their initial successes are:

1. **Account management** — The largest electric users across the state and in GeoTargeted areas have been identified by Efficiency Vermont to receive intensive focus as a way of achieving greater participation and deeper savings. Managers from Efficiency Vermont intensified their efforts to become valued partners with these key business customers by identifying energy efficiency measures that could deliver real value to the customers. These efforts have helped to institutionalize energy efficiency as part of each company's routine planning, operations, and growth strategies. For 2007, account-managed customers were responsible for almost 60% of the MWh savings reported for the business sector. Average savings per project for these customers have grown from 55 MWh in 2006 to 115 MWh in 2007, and savings per customer are up 120% over 2006 and up 60% over 2005.
2. **High-performance partners**— Efficiency Vermont continued to strengthen its engagement with wholesale suppliers, vendors, and other professionals operating upstream from end-use customers. This included working with design and construction professionals on most of the major new commercial construction projects undertaken in 2007. It also placed more emphasis on providing incentives to distributors and suppliers for stocking high-efficiency products, negotiating purchase price buy-downs for efficient equipment with suppliers and retailers, and sponsoring code training and its annual design competition to encourage energy-efficient design.
3. **Community energy initiatives** — Outreach to local community, school, religious, business, and organizational leaders helped leverage civic pride and turn public awareness of energy efficiency into action. Efficiency Vermont engaged these leaders with targeted initiatives in specific towns, collaborated with local energy teams, and approached the largest municipal users of electricity: water and wastewater facilities and schools. Efficiency Vermont conducted campaigns and events promoting compact fluorescent lightbulbs (CFLs) in 2007 and events in Bennington, Bristol, Charlotte, Essex, Hinesburg, Montpelier, and Richmond, as well as in Hardwick and Northfield. The latter two towns had been selected for community-based energy initiatives designed to achieve specific results as part of the Efficiency Vermont 2006–2008 contract with the Public Service Board. At the end of 2007, one year prior to the end of the contract period, Hardwick had met 90% of its participation goal and 290% of its energy savings goal. By year's end, Northfield had achieved 75% of its participation goal and 120% of its energy savings goal.

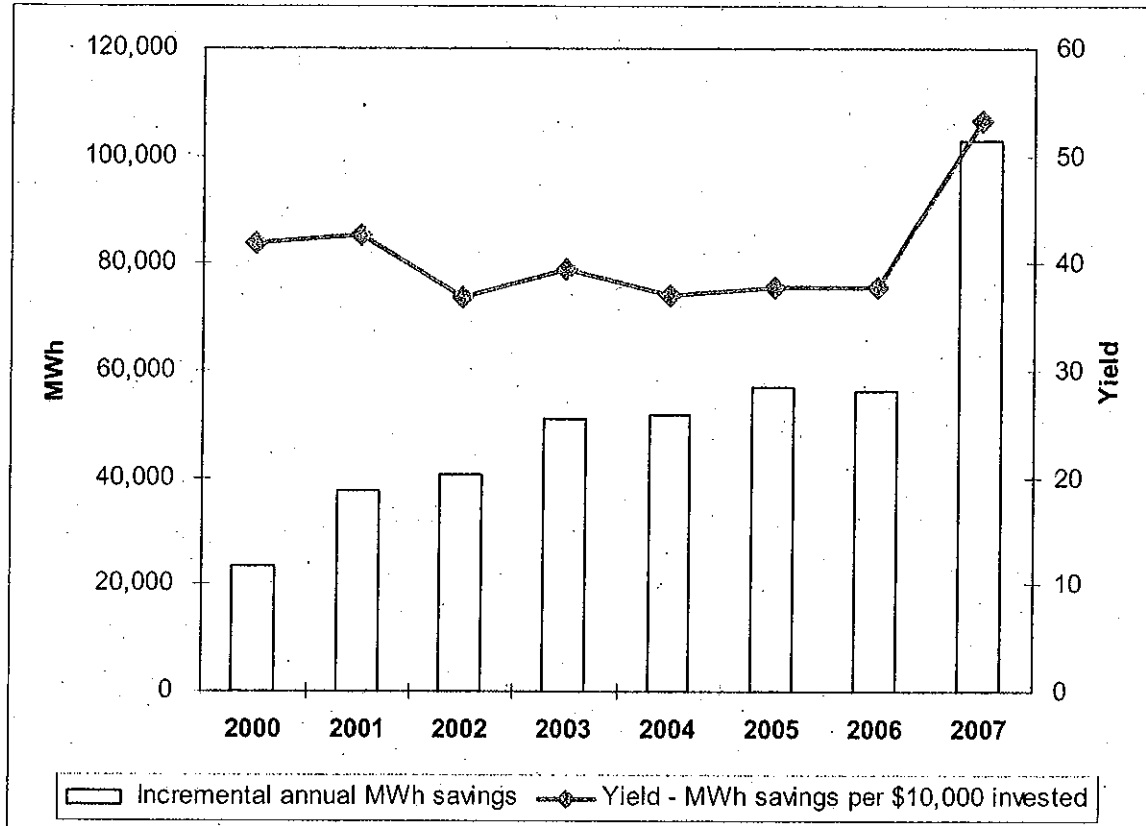
4. **Direct installation of energy efficiency measures** — Commercial lighting offers some of the greatest potential for achieving energy efficiency in retrofit situations. “Direct installation” is a strategy that can overcome many market barriers and secure large savings quickly. In 2007, Efficiency Vermont began to implement an aggressive direct installation initiative in the GeoTargeted areas. Dubbed “Lighting Plus,” this initiative is directed at the 1,400 customers with annual energy use between 40 and 500 MWh per year. Lighting Plus focuses on replacement of inefficient lighting equipment, while identifying other cost-effective opportunities and arranging for appropriate follow-up. Efficiency Vermont determined that this aggressive, limited-term initiative was ideally suited for a subcontract that would encompass comprehensive recruitment, equipment procurement, management, and implementation services. After a rigorous, competitive public solicitation process, RISE Engineering was selected in September to implement this subcontract. By the end of 2007, RISE was working with Vermont-based contractors and suppliers and had completed audits at 107 facilities. RISE will continue with its audits and implement installations at a rate of more than 100 per month through 2008.
5. **Greater promotion of CFLs** — This strategy focuses on greater use of point-of-sale displays and promotion, special events, and wholesale and retail buy-down efforts. In 2007, Efficiency Vermont secured 18 new negotiated cooperative promotions (NCPs) with chains representing more than 170 supermarkets, pharmacies, hardware stores, and other retailers. NCPs allow customers to pay a discounted price that is negotiated to be slightly lower than the price of a CFL after an instant coupon, without the time and hassle of completing the coupon form. As a result, Efficiency Vermont sold an unprecedented 580,000 CFLs in 2007, 74% of which were part of NCP agreements.

During 2007, Efficiency Vermont’s GeoTargeting efforts were focused primarily on building the capacity to achieve dramatic savings in 2008. Activities included identifying the customers and strategies with the greatest potential for savings and then designing and initiating the efforts. This included implementing the account management, direct installation, and CFL promotion strategies described above in these targeted regions. By the end of 2007, energy savings for all GeoTargeted areas were 190% of savings for the same areas in 2006. Peak demand reductions increased by 90% for winter kilowatts (KW) and 270% for summer, compared to 2006.

Real Electricity Resources for Vermont

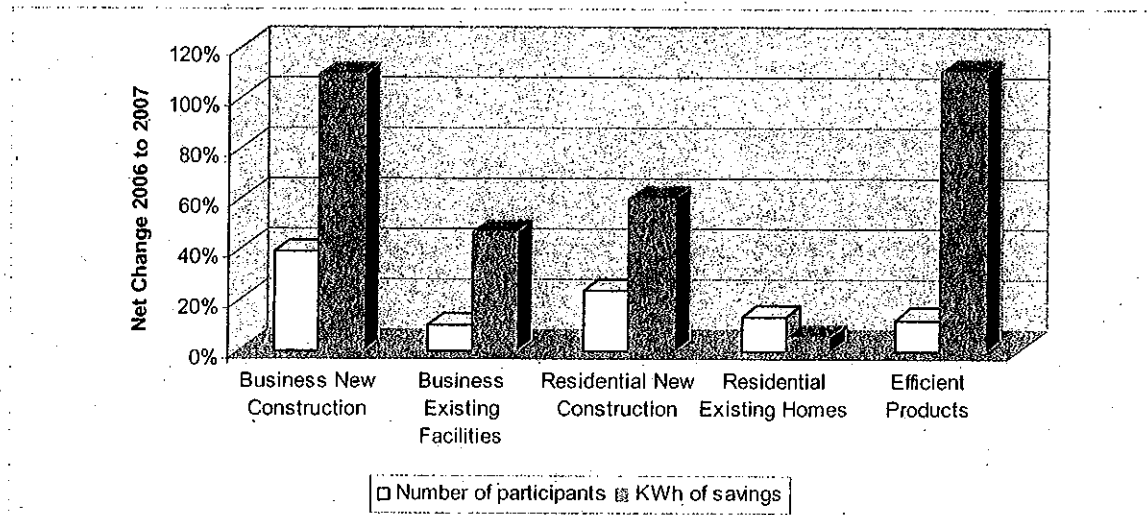
In 2007, Efficiency Vermont achieved its highest-ever savings at its most cost-effective historic yield rate. Savings for the year increased 85% over 2006 to an exceptional 103,000 MWh; while expenses increased only 30%. This outcome resulted in an unprecedented yield of 53 MWh saved for each \$10,000 invested through Efficiency Vermont.

Efficiency Vermont MWh Savings and Yield: 2000-2007



Winter peak demand savings grew to 15.5 MW, an 80% increase over 2006, whereas summer peak demand savings grew to 14.2 MW, an increase of 50% over 2006. Efficiency Vermont can attribute a portion of this level of success to the growth in both the number of participants and the annualized MWh savings in all major market sectors, as shown below:

Efficiency Vermont Growth by Market Sector - 2007 vs. 2006



Measures installed in 2007 included more efficient lighting; motors; and heating, air conditioning, and ventilation equipment, as well as industrial processes and fuel switching. More than 42% of the total annual savings came from lighting measures installed in commercial and industrial properties, and one-third resulted from residential lighting.

Efficiency Vermont is particularly proud of two additional indicators of its performance during 2007:

- The proportion of first-time participants was 74% of all business customers and just under two-thirds of all residential customers. This performance indicates Efficiency Vermont's ability to provide the opportunity for an ever-increasing group of Vermonters to participate in efficiency and conservation programs. It further demonstrates Efficiency Vermont's deeper penetration in the marketplace and its ongoing commitment to assisting customers with service in second, third, and fourth projects.
- The annualized MWh savings per business customer participant grew by 40%, from 32 in 2006 to 45 in 2007.

Real Value for Vermont

In addition to benefiting ratepayers, Vermont's continuing commitment to energy efficiency is having a profound impact on statewide electrical load growth, economic development, and regional energy policy. It is also providing revenues to the State through forward capacity payments from the regional system operator, ISO-New England. And it is now well understood that efficiency in Vermont costs ratepayers much less than would purchasing comparable electricity supply.

For 2007, the levelized cost of Efficiency Vermont's total expenditures was approximately 2.7 cents per kWh for energy efficiency. This cost per kWh does not include participating customers' additional costs and savings, such as customer contributions to the costs of efficiency measures and customer costs or savings associated with fossil fuel use, water use, or building operation and maintenance. Including these other costs and savings brings the levelized net resource cost of saved electric energy to 2.4 cents per kWh.¹ To supply the same energy and capacity over the average 10-year life of the efficiency measures installed in 2007, Vermont utilities would have to spend, based on current values of avoided costs, 10.7 cents per kWh.

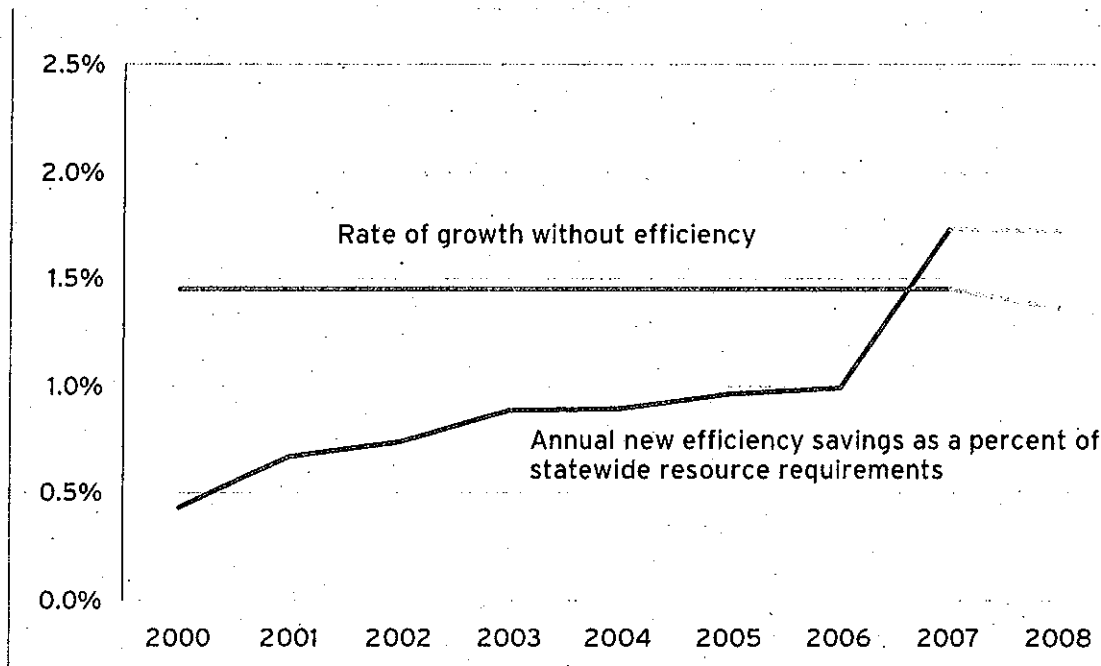
Vermont's commitment to energy efficiency and Efficiency Vermont's exemplary rate of electricity savings are continuing to gain national accolades. *Forbes* magazine recognized Vermont as the greenest state in the nation in its October 2007 issue; and in June 2007, the American Council for an Energy-Efficient Economy ranked Vermont Number 1 (with California and Connecticut) in its State Energy Efficiency Scorecard for 2006. In the latest national sales figures, Vermonters led the country in terms of the percentage of the market choosing ENERGY STAR® refrigerators, washing machines, and dishwashers. In

¹ Note that the levelized cost and benefit calculations used in 2007 are unique to 2007, due to the change in avoided costs and discount rates at mid-year.

addition, one-third of all new Vermont homes are built to meet ENERGY STAR label standards, a rate that is three times the national average.

In 2007, Vermont's efficiency savings were approximately 1.7% of what electricity sales would have been without efficiency, offsetting electric energy load growth despite an increase in the number of electric customers. The Vermont Department of Public Service estimated that without the savings attributed to Efficiency Vermont, electric supply would have grown at an average rate of 1.4%.

Efficiency Savings vs. Rate of Load Growth



By the close of 2007, the portion of Vermont's electrical energy needs being met through all savings delivered by Efficiency Vermont had grown to almost 7%. This is a significant portion of the state's electricity needs, effectively equivalent to Vermont's fourth-largest utility.

Efficiency Vermont continues to help stimulate the state's economy. Overall, the benefit-to-cost ratio of measures supported through Efficiency Vermont exceeds 2 to 1. In addition, there are tremendous multiplier benefits for the local economy. Every dollar spent by Efficiency Vermont leveraged \$1.05 from participant and third parties to support the installation of efficiency measures. Seventy percent of these funds went directly to contractors, installers, and the more than 380 Vermont retailers, suppliers, and distributors with which Efficiency Vermont partners to sell efficient products.

Efficiency measures installed in 2007 will provide a lifetime economic value of approximately \$76 million to Vermont ratepayers, and will result in a \$10.7 million reduction in Vermonters' retail energy costs. ("Lifetime economic value" is defined as the present value of electricity, fossil fuels, and water that are saved over the lifetime of the efficiency measures.) Approximately 45% of these costs were saved by businesses, with the remainder reflecting savings in Vermont homes.

Stimulating Vermont's Economy: Net Lifetime Economic Value for 2007

Benefits	\$76,100,000	Lifetime economic value of efficiency investments
Minus costs	\$19,300,000	Costs paid for by investments through Efficiency Vermont
	\$20,400,000	Costs paid for by participant and third-party investments
	\$39,700,000	Total costs
Equals net benefits	\$36,400,000	Net lifetime economic value to Vermont

Efficiency remains the state's least-cost energy resource: It reduces contributions to greenhouse gases, it is good for economic development, and it is good for the environment. Energy efficiency will continue to play an even larger role as part of Vermont's and the region's energy resource mix for the future.

ab

VERNO, T. FULFILL
SERVICI LATA.

2008 MAY 16 AM 10:05

BURLINGTON ELECTRIC DEPARTMENT

2007 Energy Efficiency Annual Report



Table 7: EEU Business & Residential - Total Resource Benefits

Avoided costs of Electricity	\$2,515,670.04
Fossil Fuel Savings	(\$580,828.24)
Water Savings	<u>\$70,702.97</u>
TRB Total	\$1,864,100.80

	<u>Annualized</u>	<u>Lifetime</u>
Meter MWh	8,074	111,240
Generation MWh	9,149	121,217
Meter Demand Kw	3,257	39,878
Generation Peak Summer Kw	973	11,184
Generation Peak Winter Kw	1,193	14,238
Water Savings	914	12,651
Fuel Increase	-8,462	-140,925
O+M Savings	\$90,394	\$638,589

Table 10: EEU Business - Total Resource Benefits

Avoided costs of Electricity	\$681,647.87
Fossil Fuel Savings	(\$93,716.12)
Water Savings	<u>\$0.00</u>
TRB Total	\$587,931.85

	<u>Annualized</u>	<u>Lifetime</u>
Meter MWh	5,459	89,165
Generation MWh	5,923	96,711
Meter Demand Kw	1,050	17,009
Generation Peak Summer Kw	512	7,705
Generation Peak Winter Kw	487	7,796
Water Savings	0	0
Fuel Increase	-5,766	-110,325
O+M Savings	\$24,694	\$224,068

Table 19: EEU Residential - Total Resource Benefits

Avoided costs of Electricity	\$1,834,022.17
Fossil Fuel Savings	(\$487,112.13)
Water Savings	<u>\$70,702.97</u>
TRB Total	\$1,276,168.95

	<u>Annualized</u>	<u>Lifetime</u>
Meter MWh	2,615	22,075
Generation MWh	3,226	24,506
Meter Demand Kw	2,208	22,870
Generation Peak Summer Kw	461	3,479
Generation Peak Winter Kw	706	6,442
Water Savings	914	12,651
Fuel Increase	-2,696	-30,599
O+M Savings	\$65,700	\$414,516

2007: Burlington Electric Department Total Resource Benefits (TRB) for EEU Programs

DIV	Program	Lifetime										Lifetime		Lifetime
		Lifetime (Present Value) TRB Total	Avoided Costs of Electricity	Lifetime (Present Value) Fossil Fuel Savings	Lifetime (Present Value) Water Savings	2007 NetKwh	2007 Summer Net	2007 Kw Winter Net	2007 Kw Net	Capacity Savings	Value	Value	Value	
COM	Commercial	\$ 5,814,005	\$ 5,757,173	\$ 56,832	\$ -	5,923,471	516	487	\$ 1,226,368	\$ 4,530,805				
RES	Residential	\$ 2,643,384	\$ 2,741,381	\$ (175,098)	\$ 77,101	3,214,113	459	705	\$ 891,331	\$ 1,850,050				
EEU	Total EEU	\$ 8,457,390	\$ 8,498,554	\$ (118,266)	\$ 77,101	9,137,584	975	1,191	\$ 2,117,700	\$ 6,380,855				
COM	Business Existing Facilities	\$ 2,160,238	\$ 2,378,684	\$ (218,446)	\$ -	2,192,317	309	330	\$ 624,208	\$ 1,754,476				
COM	Business New Construction	\$ 3,653,767	\$ 3,378,490	\$ 275,278	\$ -	3,731,155	207	156	\$ 602,160	\$ 2,776,329				
RES	Efficient Products Program	\$ 1,166,282	\$ 1,113,266	\$ (18,839)	\$ 71,855	2,529,114	340	456	\$ 305,203	\$ 808,063				
RES	Residential Existing Facilities	\$ 1,323,636	\$ 1,478,041	\$ (159,033)	\$ 4,628	573,586	107	227	\$ 542,385	\$ 935,656				
RES	Residential New Construction	\$ 153,466	\$ 150,074	\$ 2,774	\$ 618	111,413	12	21	\$ 43,743	\$ 106,331				

**VERMONT ENERGY EFFICIENCY
UTILITY FUND
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended
December 31, 2007 and 2006**

**G.W. Osterman & Co, P.C.
192 S. Main Street, PO Box 793
Barre, Vermont 05641
(802) 479-3667**

VERMONT ENERGY EFFICIENCY
UTILITY FUND

Financial Statements With
Independent Auditors' Report for the Years Ended
December 31, 2007 and 2006

CONTENTS

	Page Number
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	3
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS	5
STATEMENTS OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7 - 11

G.W. Osterman & Co, PC

192 S. Main Street, PO Box 793
Barre, Vermont 05641

Gerald W. Osterman, CPA Tel. 479-3667
Debra U. Burke, CPA Tel. 476-9698

gwosterman@charter.net
duburke@charter.net

Independent Auditors' Report

Vermont Public Service Board
Montpelier, Vermont

We have audited the accompanying statement of financial position of the Vermont Energy Efficiency Utility Fund (VEEUF), a special reserve fund of the State of Vermont administered by Batchelder Associates, PC as of December 31, 2007 and 2006, and the related statements of revenues, expenditures and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VEEUF as of December 31, 2007 and 2006, and the changes in fund net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2008 on our consideration VEEUF'S internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on page 2 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1, the financial statements present only the VEEUF and do not purport to, and do not, present fairly the financial position of the State of Vermont as of December 31, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

G. W. Osterman & Co, PC

September 17, 2008
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDING DECEMBER 31, 2007

This section of the Vermont Energy Efficiency Utility Fund's annual financial report represents our discussion and analysis of the VEEUF's financial performance during the fiscal year that ended on December 31, 2007. It should be read in conjunction with the VEEUF's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The VEEUF unreserved fund balance as of December 31, 2007, was \$7,457,401 versus \$5,580,118 at December 31, 2006
- The VEEUF's fund balance increased by \$1,877,283 and \$4,105,347 respectively during the 2007 and 2006 fiscal years as a result of fund assessments exceeding fund expenditures from electric distribution utilities
- VEEUF actual expenditures for 2007 were 2.93% below budgeted levels due to a lower than anticipated level of programmatic support requests during the current fiscal year

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Total disbursements to the eight programs comprising the VEEUF increased by approximately 25% from the prior year, from \$15,037,456 in 2006 to \$18,783,372 in 2007. As of December 31, 2007, the VEEUF had net receivables of \$164,136 consisting primarily of receivables from contributors of \$4,094,452, payable to programs of \$2,257,537, payable to contributors for uncollectibles of \$124,499, accounts payable and accrued expenses of \$1,394,205 and taxes payable of \$154,075. This compares to a net receivables of \$1,457,590 as of December 31, 2006, which consisted primarily of receivables from contributors of \$4,202,178, payable to programs of \$1,863,798, payable to contributors for uncollectibles of \$83,463, accounts payable and accrued expenses of \$656,582 and taxes payable of \$140,745.

As was the case in prior years, the VEEUF maintained an adequate cash flow and balance of funds to satisfy all obligations.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In 2006, ISO New England established a Forward Capacity Market (FCM) that will pay suppliers to ensure sufficient capacity is available to meet future peak loads, with the value of such payments determined by auction. This market is unique in that it allows energy efficiency, distributed generation, and other demand resources to compete directly with generators. On December 14, 2006, The VT Public Service Board issued an Order authorizing the EEU to participate in ISO-New England's Forward Capacity Market. Both VEIC and BED are participating in the FCM's Transition Period that extends from year 2007 until June 2010. BED and VEIC expect joint revenues from their FCM participation to be approximately \$850,000 in year 2008.

The Vermont Public Service Board has passed the Vermont Energy Efficiency Fund Budgets for 2009, 2010 and 2011. The 2009 budget is level-funded, the 2010 budget is 15% over the 2009 budget, and the 2011 budget is 15% over the 2010 budget.

G.W. Osterman & Co, PC

192 S. Main Street, PO Box 793
Barre, Vermont 05641

Gerald W. Osterman, CPA Tel. 479-3667
Debra U. Burke, CPA Tel. 476-9698

gwosterman@charter.net
duburke@charter.net

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

To: Vermont Public Service Board
Montpelier, Vermont

We have audited the financial statements of the Vermont Energy Efficiency Utility Fund as of and for the year ended December 31, 2007 and 2006, and have issued our report thereon dated August 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Vermont Energy Efficiency Utility Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Vermont Energy Efficiency Utility Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Vermont Energy Efficiency Utility Fund's financial statements that is more than inconsequential will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermont Energy Efficiency Utility Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Vermont Energy Efficiency Utility Fund in a separate letter dated September 17, 2008.

This report is intended solely for the information and use of the Fiscal Agent, Contract Administrator, Vermont Public Service Board, and the State Auditor's Office of the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties.

G. W. Osterman & Co, PC

September 17, 2008
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	\$ 7,293,265	\$ 4,122,528
Accounts receivable:		
Receivable from energy distributors	<u>4,094,452</u>	<u>4,202,178</u>
Total Current Assets	<u>11,387,717</u>	<u>8,324,706</u>
 TOTAL ASSETS	 <u>\$ 11,387,717</u>	 <u>\$ 8,324,706</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable for energy programs	\$ 2,257,537	\$ 1,863,798
Payable to energy distributors for		
uncollectibles and overpayments	124,499	83,463
Accounts payable and accrued expenses	1,394,205	656,582
Taxes payable	<u>154,075</u>	<u>140,745</u>
TOTAL CURRENT LIABILITIES	<u>3,930,316</u>	<u>2,744,588</u>
Fund Balance - Unreserved:		
Designated for contractual customer commitments	633,304	911,379
Designated for DPS monitoring	1,705,895	747,882
Undesignated	<u>5,118,202</u>	<u>3,920,857</u>
TOTAL NET ASSETS	<u>7,457,401</u>	<u>5,580,118</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 11,387,717</u>	 <u>\$ 8,324,706</u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
Year Ended December 31, 2007 and 2006

	2007	2006
REVENUES:		
Assessments (Note 1)	\$ 22,681,802	\$ 20,953,470
Regional capacity market payment	247,000	0
Interest income	129,792	48,305
Total Operating Revenues	<u>23,058,594</u>	<u>21,001,775</u>
EXPENSES:		
Energy programs (Note 2)	18,783,372	15,037,456
Regional capacity market expense	210,034	0
Administrative costs (Note 4)	1,960,989	1,650,593
Taxes (Note 7)	226,916	208,379
Total Expenditures	<u>21,181,311</u>	<u>16,896,428</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,877,283	4,105,347
NET ASSETS - UNRESTRICTED, BEGINNING OF YEAR	5,580,118	1,474,771
NET ASSETS - UNRESTRICTED, END OF YEAR	<u>\$ 7,457,401</u>	<u>\$ 5,580,118</u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Energy Distributors	\$ 22,681,802	\$ 20,088,141
Receipts from Regional Capacity Market	247,000	-
Payments for Energy Programs	(16,525,835)	(14,302,395)
Payments for Regional Capacity Market	(210,034)	-
Refunds to Energy Distributors for Uncollectibles and Overpayments	148,762	(83,463)
Payments for General Administration	(2,933,882)	(2,883,553)
Payments to Contract Administrator	(138,282)	(136,766)
Payments to Fiscal Agent	(15,000)	(11,250)
Payments for Taxes	(213,586)	(212,498)
Net Cash Provided by Operating Activities	<u>3,040,945</u>	<u>2,458,216</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	<u>129,792</u>	<u>48,685</u>
NET INCREASE IN CASH AND EQUIVALENTS	<u>3,170,737</u>	<u>2,506,901</u>
Cash and Cash Equivalents:		
Beginning of Year	<u>4,122,528</u>	<u>1,615,627</u>
End of Year	<u>\$ 7,293,265</u>	<u>\$ 4,122,528</u>
Reconciliation of Increase (Decrease) in Net Assets to Net Cash		
Provided by Operating Activities		
Excess (Deficiency) of Revenues over Expenditures	\$ 1,877,283	\$ 4,105,347
Less: Interest Income	(129,792)	(48,305)
Change in Operating Assets and Liabilities:		
Receivables	107,726	(865,329)
Payable for Energy Programs	393,739	(117,431)
Payable to Energy Distributors for Uncollectibles and Overpayments	41,036	18,000
Accounts Payable and Accrued Expenses	737,623	(629,947)
Taxes Payable	13,330	(4,119)
Net Cash Provided by Operating Activities	<u>\$ 3,040,945</u>	<u>\$ 2,458,216</u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies utilized by the Vermont Energy Efficiency Utility Fund (VEEUF), administered by Batchelder Associates, PC, in the preparation of the accompanying financial statements are summarized below.

Organization

In 1999, the State of Vermont established the VEEUF to fund ten core statewide energy efficiency programs. These programs include: commercial energy opportunities; commercial emerging markets; commercial and industrial customer credit; dairy farm program; multi-family and single family low-income programs; residential emerging markets; residential new construction; efficient products; and utility payments. In 2003, the programs were condensed into eight programs: business existing facilities; business new construction; customer credit; business initiatives; energy efficiency products; residential new construction; residential existing buildings; and residential initiatives. In January 2004, the Vermont Public Service Board established the Customer-Credit Program, Net-Pay option. In December 2006 the Vermont Public Service Board authorized the VEEUF's participation in the regional capacity market; administrative costs began in 2006 and full program costs were incurred in 2007.

Pursuant to 30 V.S.A. §209, the Vermont Public Service Board (VPSB) established a volumetric charge to customers, the Energy Efficiency Charge (EEC), for the support of energy efficiency programs. Currently, there are twenty (20) distribution utilities assessing these charges and utilizing the programs.

The VPSB entered into a contract with Batchelder Associates, PC to serve as the fiscal agent of the VEEUF for the period January 1, 2006 through December 31, 2008.

Pursuant to the terms of Docket 5980, the VPSB set the original EEU budget for 2006, 2007, and 2008. Budgets were subsequently revised in a VPSB Order issued August 2, 2006. In response to the budget revision the 2006 EEC charge was revised in a VPSB memo dated August 15, 2006.

Special Reserve Fund

The VEEUF is considered a special reserve fund of the State of Vermont. The financial statements presented are not a reflection of the financial position or changes in financial position of the State of Vermont. Because the VEEUF is required by law to finance its activities with fees and charges rather than with taxes or similar revenue, the special reserve fund is presented as an enterprise fund.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

These statements have been prepared on the modified accrual basis in accordance with Governmental Accounting Standards Board (GASB), for the periods presented. For the years ended December 31, 2007 and 2006 the VEEUF had accounting transactions in the unreserved fund balance only. The VEEUF's financial statement presentation follows the recommendation of GASB No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and amendments. GASB No. 34 as amended establishes standards for financial reporting for state and local governments.

Cash and Cash Equivalents

All highly liquid securities, purchased with a maturity of three months or less, are considered cash equivalents. Interest is credited to the VEEUF when earned and the investment rate averaged 1.80 and 1.98 percent during the years ended December 31, 2007 and 2006 respectively.

Revenue Recognition

Vermont electrical distribution utilities are required to assess their customers based on usage at a statutory rate. The assessments are then remitted to the VEEUF. It is the VEEUF's policy to recognize all self-assessments received within two months of the fiscal period. Any late remittances will be recognized in a subsequent period or periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Fund Balance Designations

In accordance with National Council on Governmental Accounting Statement 1 (NCGAS 1) paragraph 120, contractual customer commitments and Department of Public Service funding set-asides for monitoring and evaluation of the VEEUF have been shown as a designation of fund balance in the statement of financial position. Designations represent financial resources available to finance expenditures which by their nature are tentative. Performance incentive contracts only result in payment after customers have made certain improvements relating to energy efficiency. The actual amounts of such payments are not known in advance, but have been estimated and shown as a designation of fund balance in the statement of financial position. DPS monitoring and evaluation is budgeted for the three year contract period and prorated to designated fund balance each year. Actual monitoring and evaluation expenses may differ from the funding set-asides. The year ending December 31, 2006 is the first year of a 3-year contract; the undesignated fund balance remains available for efficiency program expenses during the next two years.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

NOTE 2 - DISTRIBUTIONS TO ENERGY PROGRAMS

Distributions to the Vermont Energy Investment Corporation (VEIC) and other qualified providers were made by Batchelder Associates, PC during the years ended December 31, 2007 and 2006, in accordance with the terms of their contracts or as directed by the contract administrator, with concurrence of the Vermont Public Service Board. The VEIC uses the disbursements to fund various programs.

Approximate amounts incurred by program (In Thousands) as of December 31, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
EVT (Efficiency Vermont):		
Business Existing Facilities	\$ 6,314	\$ 4,416
Business New Construction	2,315	2,007
Customer Credit	10	12
Customer Credit Net Pay Option	933	711
Energy Efficient Products	2,611	1,634
Residential New Construction	2,793	2,655
Residential Existing Buildings	2,780	2,688
	<u>17,756</u>	<u>14,123</u>
<u>BED (City of Burlington Electric Department):</u>		
Business Existing Facilities	403	354
Business New Construction	232	240
Residential New Construction	115	104
Residential Existing Buildings	183	127
Energy Efficient Products	94	89
	<u>1,027</u>	<u>914</u>
	<u>\$ 18,783</u>	<u>\$ 15,037</u>

NOTE 3 - RESTATEMENT OF STATEMENT OF CASH FLOWS

The 2006 Reconciliation of Increase in Net Assets to Net Cash of the Statement of Cash Flows on the bottom of page 6 has been restated. The change in the Payable for Energy Programs has decreased \$123,645 and nets to \$(117,431). The change in the Payable to Energy Distributors for Uncollectibles and Overpayments has increased \$83,463 and nets to \$18,000, and the change in Accounts Payable and Accrued Expenses has decreased \$40,182 and nets to \$(629,947). These changes offset each other.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

NOTE 4 - ADMINISTRATIVE COSTS (In Thousands)

General costs incurred by the VEEUF relating to the energy programs as of December 31, 2007 and 2006, are as follows:

	<u>2007</u>		<u>2006</u>
General Administration	\$ 915	\$	728
Information Technology	637		494
Monitoring and Evaluation	246		262
Contract Administration	138		137
Fiscal Agent	15		11
Audit	8		17
VSPC Participation Activities	1		-
EEU Advertising	1		2
Total	<u>\$ 1,961</u>	<u>\$</u>	<u>1,651</u>

Pursuant to the contract between the Vermont Public Service Board and the Vermont Energy Investment Corporation, the VPSB proposed a performance-based award program for VEIC based on achievement of certain performance benchmarks designed to promote energy efficiency in the State of Vermont. The performance measurements span a period of three years from 2006 to 2008 with a total award for the three-year period potentially amounting to \$2,347,000. The maximum annual performance incentive of \$758,600 has been accrued in 2007 and is included in general administration above. The 2006 performance incentive of \$616,400 is included in general administration for 2006 above. The total accrued performance incentive payable is \$1,375,000 as of December 31, 2007.

VEIC's achievement of contract performance benchmarks for 2003 through 2005 has been evaluated and the actual award of \$1,280,000 was approved and paid in July 2006.

NOTE 5 - FISCAL AGENT SERVICES CONTRACTS

Under the contract between the VPSB and Batchelder Associates, PC, the fiscal agents are reimbursed a fixed amount each fiscal year plus allowable variable expenditures, as defined. The fiscal agent was paid \$15,000 for fixed expenses and \$79 for variable expenses, and the external audit fee was \$7,500 for the year ending December 31, 2007. For the year ended December 31, 2006 Batchelder Associates, PC was reimbursed for fixed expenses of \$11,250 and variable expenses of \$47 and the external audit fee totaled \$7,500.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

NOTE 6 - INCOME TAXES

These financial statements present the activities of the VEEUF. The activities of the VEEUF are tax-exempt since the VEEUF is a special reserve fund of the State of Vermont, and therefore not subject to federal or state income taxes or other taxes besides the gross receipts tax and weatherization tax described in Note 7 below. As such, no provision for taxes other than the gross receipts tax and weatherization tax has been reflected in the accompanying financial statements.

NOTE 7 - OTHER TAXES

One-half percent of assessments collected in 2007 and 2006 are payable to the home weatherization assistance trust fund. Home weatherization assistance trust fund disbursements are made quarterly. Also, one-half percent of assessments collected in 2007 and 2006 are payable to the gross receipts tax fund, which is paid annually.

As of December 31, 2007 and 2006, the following was payable to the tax funds (In Thousands):

	<u>2007</u>	<u>2006</u>
Home Weatherization Assistance Trust	\$ 20	\$ 41
Gross Receipts Tax	134	100
Total	<u>\$ 154</u>	<u>\$ 141</u>

Expenditures (In Thousands) related to the years ended December 31, 2007 and 2006, were:

	<u>2007</u>	<u>2006</u>
Home Weatherization Assistance Trust	\$ 113	\$ 104
Gross Receipts Tax	113	104
Total	<u>\$ 226</u>	<u>\$ 208</u>

NOTE 8 - CONCENTRATION OF CREDIT RISK

The Fund maintained its cash balances at Chittenden Bank under the control of the fiscal agent, Batchelder Associates, PC. Excess balances are "swept" into government securities on a daily basis under a repurchase agreement. The repurchase agreement is collateralized by a pool of US government agencies or US Treasury notes held at the Federal Reserve Bank of Boston. As of June 30, 2008, these securities provided a balance to market value of 68.3813%. Balances as of December 31, 2007 were as follows (book balance differs from bank balance for outstanding checks):

<u>Account Description</u>	<u>Per Bank</u>	<u>Per Books</u>
Business checking (FDIC insured)	\$ -	\$ -
Repurchase agreement (collateralized, uninsured)	7,459,463	7,293,265
Totals	<u>\$ 7,459,463</u>	<u>\$ 7,293,265</u>